

Transparency and Accountability in Foreign Aid: AEI Event June 6, 2007

Remarks by Senator Tom Coburn, MD

So we're in the foreign aid business. Now what?

Libertarians and liberals have been fighting over the merits of foreign aid for years – typified by the “money down a rathole” view of Former Senator Jesse Helms and the “throw money, much more money” view of famous liberal Jeffrey Sachs.

“Unless the United States makes clear to these countries that the only way to economic prosperity is through free-market policies, then the United States is merely throwing the U.S. taxpayers' money down a rathole.” (Senator Jesse Helms, Senate Floor, May 14th, 1991, debating foreign aid bill)

v.

“The rich countries will have to help square the circle through a massive effort of support at disease control. The numbers can not add up in any other way.” (Jeffrey D. Sachs at WHO Conference in Winterthur, Switzerland: "Massive Effort Advocacy Forum". October 5 2000)

The fact is, this battle has already been won. The liberals aren't getting as much money as they'd like, but it is in the tens of billions every year – according to CRS (report: RL33262), it's \$25.2 billion for the most recent year we have a total (FY2006). For now, libertarian fantasies of cutting off foreign aid are irrelevant to the practical reality we face.

Given that we are in this business, we need to *manage* it like a business. The first thing a company's CEO and shareholders need in order to manage a business is *information* – what and where are our investments, and how are those investments performing? A new CEO doesn't come in and immediately propose a new marketing strategy, a new product line, a new manufacturing process or a factory closing. He may suspect that those changes are needed, but before any policy changes can be justified and certainly before they are implemented, he needs *information* about the status quo. That's what transparency is all about. Before you enter the political, policy or ideological battles about what our programs *should* look like, we need to know what our programs look like *right now*.

What is Transparency?

Let's define some terms. When I talk about transparency in foreign aid, or any public program, I mean the posting on a public web site all spending information, including:

- Which entities or individuals get every dollar
- Itemized accounting of what is purchased in goods or services
- Terms and conditions (and preferably a copy) of every grant or contract
- Regular progress reports on fulfilling those terms by each grantee or contractor
- Aggregation of data into tables of how much total is spent on types of activities or procurement, by country
- Publication of all curricula, program materials, original content, including appropriate video and audio files, in both English and the targeted language
- Documented progress program- and country-wide against measurable outcome indicators.

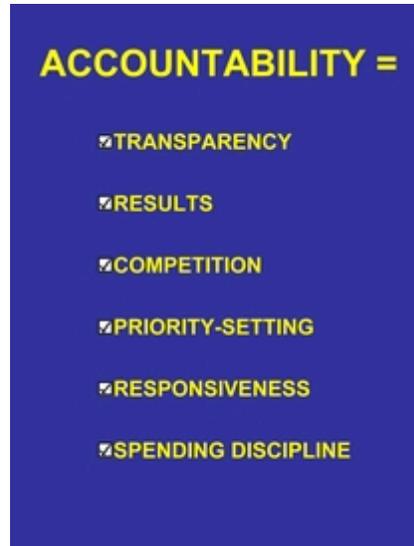
Why Transparency?

Let me be clear – *transparency* is not the goal. *Accountability* is the goal. Taxpayers deserve for the programs they pay for to work and to work *well*. Transparency is a necessary means to that

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end. At every hearing we have in our Federal Financial Management subcommittee (and we had 49 last Congress when I was Chairman – more than any other subcommittee), we put up this 8-foot tall poster. It illustrates the point – transparency is the FIRST and critical step to accountability and is the step on which all others depend.



There are good reasons why transparency is so useful:

- **Impossible to argue against** – who is going to argue against providing information about how money is being spent? Nobody will claim that the public shouldn't know.
- **Doesn't take sides.** You don't have to believe critics. You don't have to believe agencies. You don't have to pick sides at all, but rather let the data speak for you, so you can't be accused of having an agenda or being political.
- **Exposes true quality of management of a program.** Programs usually aren't *hiding* information, it's usually that they aren't *collecting* information). It's not that manager X is bad because his program does Y. Manager X is bad because he doesn't *know* what his

program does. You can't manage what you don't measure. Transparency exposes bad management without the unpleasantness of personally criticize a manager.

- **It eviscerates spin by exposing the true priorities of a program.** It doesn't matter what your claimed policy is. Your policy is how you spend money.
- **Enlists the public in the oversight workload** – Congress and the President only have so much time (and political will). Transparency allows the public to go to work for oversight: academics, advocacy groups, foreign governments, NGOs, media, private citizens.
- **DETERS BAD BEHAVIOR** - when transparency is the status quo rather, then behavior changes. We all behave differently when we think no one is watching.

Typical Transparency-Crusade Timeline

Here's how the process generally occurs. Outside experts or whistleblowers criticize a program and their noise brings the issue to Congress' attention. Congress seeks to confirm or refute those charges with the agency. Agency denies charges. Unable to address the substantive criticism, agency fights back by persecuting whistleblowers, publicly attacking credentials or motives of outside critics, reaching out to political opponents of Congressional critics. (The answer to all these shenanigans is not to respond or engage in their arguments, just to ask the agency to prove their points with full transparency.) Congressional **oversight** then exposes that the agency can't refute its critics because the information that could supposedly refute the charges *is not being collected*. Agency is then embarrassed by the mismanagement such neglect represents. Finally, the agency reform begins voluntarily or Congressional will to force reform builds.

Why Reform is So Rare

Now that's typically how the timeline works, but let me tell you why it's so rare that reform actually happens. It's that key point above Congressional oversight. Oversight is hard work. It

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takes patience and doggedness. It takes a willingness to take the hits thrown by the agencies and beneficiaries of the status quo (usually government grantees or contractors headquartered inside the beltway – I like to call them the Foreign Aid Industrial Complex). It takes time away from fundraising and glad-handing and press conferences. It takes a long time to learn an issue well enough to win an argument with an agency witness at a hearing. Frankly, it takes energy and commitment for something which just isn't glamorous. Congress is lazy and I fear many of us care more about the next election than the next generation.

Three Case Studies

Today I'm going to talk about three different cases, with programs that are in varying stages of this timeline and with three different Congressionally-designed management structures. The management structure of each has a direct impact on accountability.

Case Study #1: USAID Malaria control program: bilateral program, fully accountable structure

Case Study #2: UN headquarters renovation: multilateral program, fully unaccountable structure

Case Study #3: Iran Broadcasting: quasi-independent agency, partially accountable structure.

At each stage of the timeline, Congress could get lazy and give up. The key to getting all the way to the desired end of this process is keeping the aggressive Congressional and media pressure up.

Case Study #1 USAID Malaria Control

Congress Alerted by Academics

In January 2004, some allegations published in the scientific literature alerted the Congress to possible problems in U.S. funded malaria programs, and began the oversight process. Although the Global Fund was the original target, the attention quickly moved to USAID.

Criticisms

The criticisms were around the types of drugs and prevention tools that USAID was supporting in the 30-some countries where they ran malaria programs. Those criticisms are a discussion for another time, but the main thrust was that USAID spent money on overhead, "technical assistance" and consultants and very little on life-saving interventions, and even the interventions they supported weren't comprehensive or effective.

USAID Response

However, the main point for today's agenda is that USAID could only refute those criticisms with abstractions and undocumented assertions. The agency lacked an ability and it seemed, a willingness, to document exactly how it spent its malaria money.

Congressional Pressure, Agency Push-back

Again, you can't push back against critics who say your program is flawed if you don't know exactly what your program does. You can't manage what you don't measure.

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For a while, it seemed USAID was unwilling to do the hard work of tracking its dollars. Members started targeting the program with proposed legislation and media pressure. Letters were sent to President Bush, high level meetings took place with the USAID chief Andrew Natsios. There was a series of Congressional hearings in both chambers. At all those hearings, we heard double-speak. Here's an example from the global health chief at the time, Dr. Anne Peterson:

“Contrary to popular belief, USAID does support use of DDT in its malaria control programs. In most countries in Africa where USAID provides support to malaria control programs, it has been judged more cost-effective and appropriate to put U.S. government funds into other malaria control activities than IRS. ...in countries in which circumstances support the use of IRS (including DDT) USAID has funded and supported such malaria control programs.”

- Anne Peterson, then Global Health Bureau chief, USAID, in written testimony to a Senate Foreign Relations subcommittee, 10/6/2004

Are you confused yet? Despite the last assertion in the above quote, we found that USAID could not document *any* support for spraying programs at the time of that testimony.

A Turning Point

The fourth hearing, held in the Federal Financial Management subcommittee, was a turning point. There were fireworks, including arguments shouted from program staff out in the audience, and we took the unusual move of asking the Administration witness to face the agency expert critics in the second panel by staying at the dais for their testimony. I'm giving these details to illustrate the level of aggression that it sometimes takes to force a simple thing like transparency. The resistance to change is startling. An insider told us later that the turning point for the internal discussion USAID to move towards reform was in fact those painful two hours at that hearing.

The key outcome of the hearing was that USAID committed to come clean about its funding in a comprehensive way, once and for all. The next few weeks, USAID sent out a data call to all its missions and came up with funding information in the format we had asked – in order to find out if the critics were right to accuse the agency of spending money on consultants and overhead instead of life-saving interventions. We found that they spent less than 10% on life-saving interventions – 8% to be exact. However, they spent at least 67% on TA and overhead. Here's what we found:

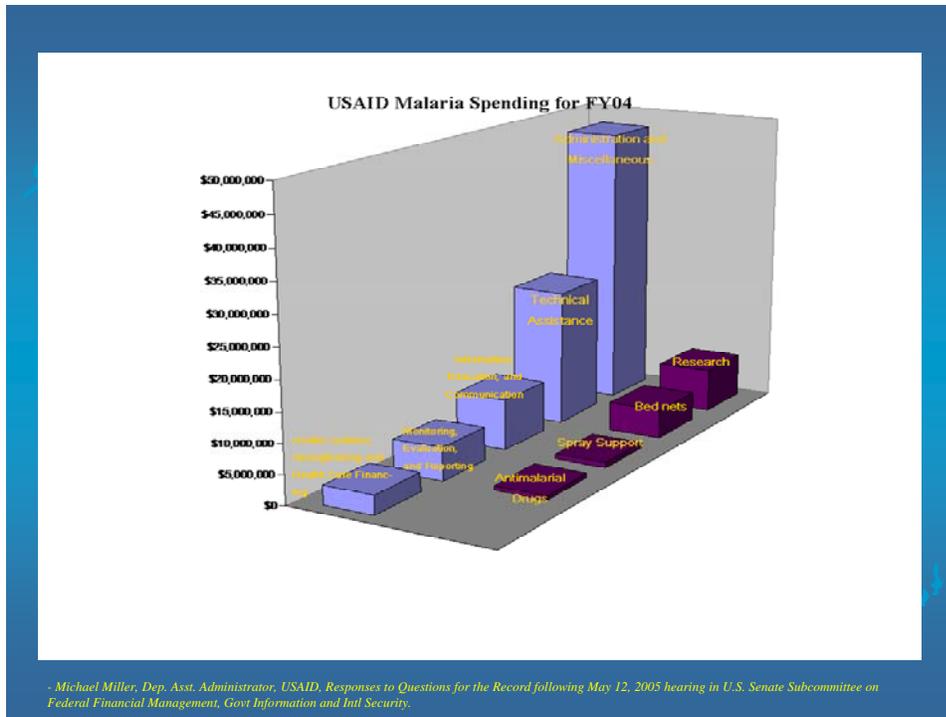
USAID Malaria Program Transition (dollars in millions)

Type of funding	FY04		FY05 (estimate)		FY06	
	Actual				Senate-passed level	
Commodities*	\$6.2	8%	\$10-15	11-17%	\$35-45	33-43%
Indoor Residual Spraying	\$0.8-0.9	1%	\$2-5	2-6%	\$7-10	7-10%
Technical Assistance	\$22.7	28%	\$20-25	22-28%	\$25.0	24%
Administrative/Indirect	\$22.8	29%	\$25.0	28%	\$25-30	24-29%
Research/Conferences	\$8-10	10-13%	\$10.0	11%	\$10.0	10%
Other**	\$18.0	23%	\$9-22	10-25%	***	
TOTAL	\$79.8		\$89.0		\$105.0	

* Commodities include nets, retreatment kits, some Indoor Residual Spraying items, drugs, and other; ** Other includes information, education, communication, monitoring and evaluation; *** "Other" activities for FY2006 are included in figures above. Source: USAID; Prepared by Larry Nowels, Congressional Research Service, August 31, 2005.

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Transparency Births Reform

The data speak for themselves. Naturally, these data produced serious internal discussions at the same time that President was looking for major Africa initiatives to announce in advance of the G8 meeting that year. The data helped to drive the policy reforms to be announced along with the President's initiative to dramatically scale up malaria funding. The program spawned in those days – the President's Malaria Initiative – has been a model of how to run a foreign aid program:

- **Commitment to full transparency**, including publishing all funding info, and progress reports on a public website (www.fightingmalaria.gov);
- **Appointment of a key coordinator** with authority over the policy AND the funding, in every country. Admiral Tim Ziemer has been a fantastic leader;
- **Setting of measurable goals** (reduce mortality by half in the focus countries within 5 years).

The program isn't perfect, and we are still always watching over their shoulder, but the relationship is healthy and open. This is what taxpayers expect when they give so much money to help people – they want to see that money save lives in a measurable way.

The moral of the story is that transparency works. It is its own reform engine. It is its own quality assurance initiative. It exposes failure and rewards success.

Now, let's move on to some *less* ideal cases:

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Case Study #2: UN Headquarters Renovation

Background

The UN compound in Turtle Bay in mid-town Manhattan was originally built with private philanthropic funds in the 1950s. The compound includes multiple buildings that are in serious need of repair. Rather than budget for annual maintenance and phased improvements over time, the UN has delayed and neglected maintenance such that the compound now needs major renovation to be safe and up to code.

The US Loan for Renovation

The UN did not seek private funds to renovate the buildings. Nor did they seek to budget those costs out over several years from the annual assessed dues paid by member countries. Instead, they sought a loan, underwritten entirely by the U.S. government. The so-called Helms-Biden provision of law prohibits the US from making loans to the UN. So appropriations staff slipped in a waiver of Helms-Biden to the foreign aid spending bill without anyone really noticing at the time. Now the UN will assess member states for the loan repayment. US pays about a quarter of assessed amounts, so the taxpayers will pay themselves back *with interest* for about a quarter of the principle.

Congress is Alerted

No one would have known anything about this if Donald Trump hadn't sent a letter to former UN chief Kofi Annan claiming that the renovation plan was overpriced and he (Trump) could do the job for half the cost. Once alerted to the renovation and the loan plans, Congress had to make the decision about whether we were willing to allow this loan to go forward. But naturally, to make that kind of decision required information.

- What is the true cost (seems estimates keep shifting)?
- What is that cost based on – what exactly are we buying?
- Is the procurement system for the project secure from Oil-for-Food-like corruption?

The response to these questions was a total lack of transparency. The UN wouldn't turn over budget and planning documents. GAO, which was investigating the project, also initially refused to turn over documents they had. The US mission to the UN was woefully uninformed about the budget and operations of the project. When the US mission did come up with some information, Trump and experts familiar with the construction industry in Manhattan claimed that the costs were bloated, the contractors were shady, there were questionable "fees" in the hundreds of millions, and the American taxpayers were getting taken.

Congressional Hearings

So we had a hearing. Again, this was another case of an agency being painfully exposed for not knowing basic spending information. The high-profile hearing was embarrassing for the State Department and the UN (but great publicity for Trump) and exposed that nobody at the UN was able to justify the following:

- 1) The outrageous cost of the architectural design firm. This Italian design firm's contract smacked of cronyism and had charged millions of dollars without producing

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- a design. The firm had no experience with this size project and had ties to the Oil for Food scandal.
- 2) Contingency fees were set at a rate inconsistent with normal business practices in the construction market.
 - 3) The plan involved building a temporary building on the campus to house people while their building was being renovated, and then demolishing that building afterwards (rather than renting out space or doing floor-by-floor phasing).

In other words, procurement as usual at the UN.

After another hearing, meetings and approps threats, we did get some promises from the UN:

- A web site where spending info relating specifically to the renovation would be posted.
- The Italian design firm was fired. Side note: A UN procurement official who pled guilty in 2005 to corruption and wire fraud charges also happens to be the one who awarded the design contract to the Italian firm.
- A new coordinator was brought in to manage the renovation project – an American manager with experience in hospital administration.
- The UN met with us periodically to provide updates on how and why the projected costs kept rising.

Progress to date (or lack thereof)

Perhaps the difference between a bilateral agency like USAID and the UN is that the UN doesn't have to keep its commitments to Congress:

- There is a web site, but it's not useful. Contract documents and progress reports are not posted as promised.
- Cost estimates keep rising and industry experts tell us that we can expect the cost to increase 2-3x more than the current \$2B price tag.
- There is no independent audit entity for the UN. Any program can refuse to be audited.
- GAO reports that the UN still has no policies in place to ensure that qualified vendors are selected or that procurement staff operate ethically.
- "Scope" options keep getting added on to the project – already \$40M worth, including planting grass on the top of the roof and erecting wind turbines in the lawn.

Now what?

It's clear that the UN will not reform voluntarily. It has rejected multiple reform proposals and the scandals continue to unfold. Just this week we've been investigating a new scandal relating to illegal UNDP payments to the North Korean dictator Kim Jung-Il. The UN peacekeeping program has lost an amount equivalent to the entire US contribution to that program in fraud and mismanagement. Reform will have to be forced by financial conditions. The first and most realistic condition to set on funding is transparency.

- The UN must be opened up to independent auditing and programmatic reviews – just this weekend, the UN released its so-called "audit" of the North Korea UNDP financial transactions. This is in the face of growing and incontrovertible evidence of

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massive pay-offs by the UN of the North Korean regime. This document is a white-wash from the same internal office that covered the Oil for Food scandal, and only proves our point.

- ☑ All budget and procurement information must be made public.
- ☑ Financial conflicts of interest of UN officials and contractors must be disclosed.

Does the Congress have the political will to do what it takes? Stay tuned.

Case Study #3: Broadcasting Board of Governors (BBG)

What is BBG?

The Broadcasting Board of Governors is an independent body that maintains authority over all US broadcasting into foreign countries, including Voice of America and all foreign language radio programs, such as the Radio Free services. BBG is an independent agency, but it is funded by the Congress, the Board members are appointed by the President, and the State department retains one seat. However, despite these potential areas of influence by the elected government, in practice, the BBG answers to no one.

Why such autonomy?

Congress purposely structured the BBG with little oversight in order to counter any perception that U.S. broadcasts are propaganda. However, if the taxpayers have no way to control the body, then transparency is the *only* means to ensure that the BBG is meeting its statutory mission to promote US interests and values overseas.

Language = Barrier to Accountability

However, most broadcasts are by definition not in English. Most Americans and BBG Members don't speak the language of the broadcasts. True transparency would require translation, transcription and public availability of such transcripts or subtitled video. Also, without transcription, how do managers who don't speak the language of the broadcasts expect us to believe they can manage their program?

Congress is Alerted

We got word of a problem with our broadcasts in Iran during a nuclear proliferation hearing, where a student dissident testified that one of the biggest obstacles to the success of democracy efforts in Iran is that US-funded Farsi language services were promoting the terrorist Iranian regime rather than promoting democracy. I promised this young student leader, who had been tortured in Iranian prisons, that I would get to the bottom of this.

Why does it matter?

After all, short of total appeasement or total military engagement, our *only* option with Iran is democracy promotion. Given that Iran is probably the biggest threat to the US, we should be aggressively using our broadcasting to subvert the regime, embolden its enemies, encourage dissidents and democracy-minded Iranians and exiles, and counter the regime's propaganda with factual news reporting and pro-democracy editorial content, consistent with the BBG statute. It

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turns out that the National Security Council and State Department were thinking the same thing and had ordered a content review by a native Farsi speaker serving as a US policy analyst on Iran. Unlike BBG reviews, which cherry-pick certain programs to evaluate, she reviewed six months of comprehensive content. The findings were not only disappointing, but dangerous: the broadcasts frequently include former regime officials, terrorists, and well-known anti-US guests to appear as “experts” on US-Iran policy.

Congress Confronts BBG

With this confirmation that our student dissident witness had been right, the subcommittee ranking Democrat and I asked for and received a commitment from the head of the BBG to take a first step towards transparency – the transcription of all Farsi content.

Broken Promises

Again, the difference between an agency accountable to Congress and one that isn't is that unaccountable agencies don't have to keep their promises. The BBG never delivered and even tried to deny that the commitment had been made, despite many witnesses.

Whistleblowers

I had no recourse but to appeal to the President. When my letter became public, the funniest thing happened. Whistleblowers from inside the BBG started coming to us. They were terrified and had already been persecuted for their complaints to management about the pro-regime content.

A Wider Problem?

We are learning that the problem isn't isolated to Farsi broadcasts. It turns out that Arabic services have carried live speeches of terrorists and editorial content that is grossly anti-Israeli and anti-American.

Management Structure Prevents Accountability

Because of the management structure of BBG, there is no one person who answers for BBG to elected officials, including the President and the Congress. The President can fire the Chairman of the Board, and the Congress can cut off funds, but BBG is a Board, and the Board makes the decisions.

I'm pleased to report that the President's nominee for the new Chairman of BBG, AEI's own Jim Glassman, was confirmed by the Senate last night. We expect great things from Jim in terms of trying to move the Board towards full transparency. Ultimately, though, the Chairman is just one member of the Board. Fundamental management changes are needed, and the Board has not been willing to make those changes thus far. Instead, we've seen efforts to discredit outside critics, persecution of whistleblowers and downright refusal to post transcripts of all original content on a public web site.

BBG continues to try to appease its critics with repeated releases of so-called “reviews” – the latest just in the last week – that cherry-pick content free of problems or focuses only on so-called “journalistic integrity” instead of the agency's consistency with its statutory mission to effectively present US policies. Like the UN, an organization that is flawed in structure and

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dysfunctional in operation can only be saved by the disinfecting quality of *transparency*. Fully published content will not only expose for elected officials and Board members where problems are, but deter and preempt those problems in the first place.

Growing Congressional Concern

Our House colleagues have recently refused the President's request for increased funding for BBG's Arabic services. The reasons? Growing awareness of these problems I've described. Another positive development is that these House folks have now called for the State Department's IG to investigate how BBG has allowed terrorists access to US-funded airwaves. I hope that they will add Farsi services to that same investigation. I will continue working to generate political support for forced transparency at BBG – **continued failure in the critical mission of BBG is not an option.**

CONCLUSION: The role for you and me

Beyond these case studies, let's talk about some general principles. Congressional oversight can make a difference, but not just *any* oversight will do. It takes bulldog-like perseverance – this isn't for the faint of heart. But there are practical things you should demand of Congress to improve transparency:

- ☑ Lose the dog-and-pony show puff hearings with testimony from imported victims and emotional activists demanding more unaccountable spending. Get the agencies in and stack the second panel with their critics. Ask the agency witnesses to stay to respond to the second panel. Ask hard questions about spending. Get commitments for transparency improvements with deadlines *on the record* from Agency witnesses.
- ☑ When proposing programs and policies, Congress should promote management structures that maximize accountability to American taxpayers and their elected leaders – bilateral is more accountable than multilateral. Traditional organization is more accountable than quasi-independent programs.
- ☑ Write transparency into every bill – public website with delineated spending information is better than the typical annual-report-to-Congress model, with consequences for non-compliance.
- ☑ Write measurable targets into every bill that can be proven or disproven by transparency, including consequences for failure to meet targets. “Promoting democracy” is not a measurable target that transparency can prove or disprove.
- ☑ Shift funds from lower priority programs to each agency's Inspector General office.
- ☑ Ensure full implementation of the Federal Financial Accountability and Transparency Act of 2006. We passed this bill last year and it will require that all financial assistance, including that provided to multilateral orgs and foreign countries, be posted on a web site by next January. All sub-awards must be posted by the following January. I suspect many lawyers at State and USAID will try to find a way out of this law with respect to foreign aid and multilateral contributions, but there is no out!
- ☑ Never give up on oversight – particularly in demanding transparency - no matter how much the agency fights back, no matter how much the political class scorns, no matter how many amendment battles you lose.

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That's our part. Now there's your part. The role of policy experts and advocates is priceless:

- ☑ Continue publishing your criticisms, talking to the media, planting stories, asking for hearings, planting tough questions at hearings.
- ☑ No member of Congress can move the process alone without the help of informed outsiders (time constraints, limited expertise, and access to information on the ground) – we need to hear what you know.
- ☑ Help groom future staff and leaders for agencies – propose names for nominations
- ☑ Keep demands simple, fair, and realistic (don't just criticize – demand something positive and reasonable and hard to argue against).

Thanks so much for your time. With that, I will close with some wisdom from a Founding Father.

“We might hope to see the finances of the Union as clear and intelligible as a merchant's books, so that every member of Congress and every man of any mind in the Union should be able to comprehend them, to investigate abuses, and consequently to control them.

-Thomas Jefferson, letter to Albert Gallatin, 1802

“The same prudence which in private life would forbid our paying our own money for unexplained projects, forbids it in the dispensation of the public moneys.

-Thomas Jefferson, letter to Shelton Gilliam, June 19, 1808